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# An Investigation of Global and Regional Integration of ASEAN Economic Community Stock Market: Dynamic Risk Decomposition Approach

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ABSTRACT

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KEY WORDS: AEC diversification dynamic risk decomposition market integration

# Notes

1. The ASEAN is a political and economic organization of ten countries located in Southeast Asia, which was formed on August 8th 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. As of 2014, the aggregated GDPs of NAFTA and EU are \$20.5 and \$18.5 trillion USD, respectively.
2. For the effect of common market on the regional economy, see Pagano ([1993](#)), Akdogan ([1996](#), [1997](#)), Levine and Zervos ([1998](#)), Levine ([2002](#)), Prasad et al. ([2003](#)), Baele et al. ([2004](#)), and Bartram, Taylor, and Wang ([2007](#)).
3. See Ba ([2003](#)).
4. See Alexander ([1994](#)).
5. We selected the order at 2 based on Portmanteau Q test. It is well known that the lag order 2 best explains the dynamic structure of multivariate time series in most cases (Juselius [2006](#)). A univariate GARCH (1,1) model is used for variance equation since the model w  
model.
6. We use source of the data for by the yearly average ghed data. Consequ ator of daily weighted AN countries to si em of exclude Myanmar and in B hort, and the num . For Vietnam Malaysia, of Thailand and about 1.5 perc



7. We performed the same test with different lags and without trends, and the results do not lead to any different conclusions. We employed automatic lag length selection using a Schwarz Information Criterion (SIC), and the maximum lag length is automatically determined by the lag length parameter methods proposed by Ng and Perron ([2001](#)). For the PP test, we used Newey-West (1994) data-based automatic bandwidth parameter methods for the kernel estimation in order to select the bandwidth.

8. T-GARCH or E-GARCH can be used for non-normal data series. However, Cappiello, Engle, and Sheppard ([2006](#)) suggest that any univariate GARCH process that is covariance stationary and assumes normally distributed errors (irrespective of the true error distribution) can be used to model the variances in DCC model and, therefore, the assumption of conditional normality is not crucial. In many cases, the basic GARCH conditional variance [Equation \(3\)](#) under normality provides a reasonably good model for analyzing financial time series and estimating conditional volatility (Zivot [2009](#)). Nonetheless, we tried various GARCH model including multivariate GARCH model. However, these models failed to converge for the data series of this article.

9. See Bekaert and Harvey ([1995](#)), Barari ([2004](#)), Ratanapakorn and Sharma ([2002](#)), Phylaktis and Ravazzolo ([2005](#)).

10. Empirical evidence of the biased optimal portfolio is well documented in the following following [Lamba \(1993\)](#), Cha and [Lamba \(1993\)](#).

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